



STATE OF WASHINGTON
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ENERGY POLICY

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Larry Cassidy, Chair, Northwest Power Planning Council

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Dear Larry and Steve:

The Energy Policy Division of the Department of Community, Trade and Economic Development is pleased to provide comments on the future role of Bonneville Power Administration regarding power supply. We believe that the public process conducted by the Council and BPA has been exemplary and we are happy to take part in it. Our comments focus primarily on the "Joint customer proposal" because it is the most comprehensive.

Overall, we generally support the approach taken by the joint customers. However, it is premature to fully endorse their proposal because it is still incomplete in some key areas and there are a number of questions that are yet to be answered. The overall framework of the Joint Customer proposal-- allocating the majority of the output of the FCRPS in slices while expecting load-serving utilities to meet their own load growth-- is a good one for four reasons:

1. The slice framework aligns responsibilities with obligations. Because utilities have an obligation to serve load they should be responsible for meeting that obligation. Following this principle gets BPA out of the boom and bust cycle of resource development. BPA would no longer be in a position of having to meet utility loads when market prices are high only to have those loads flee when market prices fall. By giving utilities a choice of either meeting their own load growth (by selecting a slice) or remaining dependent on BPA to make purchases for load growth on their behalf, the customer proposal puts the financial responsibility for serving their loads squarely on the utilities.
2. The proposal has the potential to settle long-standing issues for 20 years. Anyone who has been involved in policy debates over the future of BPA should be wary of claims that a long-term settlement is at hand. In this case, the fact that almost all of the protagonists in the struggle to allocate the BPA system are in agreement increases the likelihood that this framework will last a long time. The customer proposal draws upon many elements

of earlier proposals—tiered rates, greater utility customer control of the system, Slice, conservation and renewal discount—that have been discussed and experimented with over the last five years. What we now have before us is the product of an evolutionary process that has been built on long and widespread discussion that formed the basis of the Comprehensive Review of 1996 and has been going on since. Although there are still many maddening details to work out, the fact that throughout the public discussions of the past few months there has been overall support for the customer proposal's framework, makes us optimistic that this can be a framework that will last for some time.

3. The customer proposal provides a way to secure BPA power for the region. By staying within the current statutory framework and using some of the concepts developed in the current subscription contracts—e.g., “settlement” of the residential exchange-- the customer proposal provides a contractual mechanism to implement regional and public preference while satisfying obligations to residential and small farm customers of IOUs.
4. The proposal would help to bring much needed certainty into the region's electricity system. We have heard numerous comments from our stakeholders that wholesale price volatility, uncertainty about who should be developing new resources, and the lack of long-term, stable commitments to energy efficiency are having a negative effect on the future direction of the electricity system. If the region were able to work out a long-term agreement that more clearly defined specific roles and responsibilities, we believe that much of the uncertainty in energy efficiency, renewable energy, and conventional generation would be resolved. The market would also have clearer signals and stable investment in public purpose objectives would be increased.

There are many details of the customers' proposal that still need to be worked out. Four issues must have a satisfactory resolution before the proposal can gain our full support. They are conservation and renewables, fish and wildlife, power for the DSIs, and control over BPA expenditures.

1. **Conservation and renewables:** The Power Act clearly articulates the priority role for energy conservation and renewable resources to meet new regional load growth. The fundamental questions of how much conservation and renewables should be acquired pursuant to an agreement on the allocation of the FCRPS and who should be responsible for these acquisitions are currently under discussion by the customers and public interest groups. We believe that there is merit in the proposals put forth in the public process by each and that there is great potential for them to come to an agreement that creates a pathway to acquire all cost-effective conservation in the region and a robust amount of renewable power over the life of the proposed 20 year contracts with BPA. We have devoted much staff time to working with customers and public interest groups in trying to forge an agreement and we will continue to do so.
2. **Fish and Wildlife:** Any new BPA power allocation must not diminish BPA's ability to recover salmon in the NW. We believe that there is some merit to the fish advocates principle that the Bonneville customers be passive recipients of the power that is available after non-power operations, including fish recovery, are determined by the relevant U.S. government agencies. Any final system design will need to be much clearer than is what is currently in Section IV B. “Operations Under the Slice Product,” of the customers proposal.
3. **Power supply to the DSIs:** Washington State is particularly aware of the issues around the long-term viability of the region's aluminum industry. We have historically been the state with the lion's share of regional aluminum capacity and many small communities are highly dependant on the industry. While we concur with the utility customers that the

direct service industries have no statutory entitlement to power from the FCRPS, we also believe that a reasonable case can be made for providing some level of federal power to those historical customers of BPA who are willing to make a commitment to stay and do business in the region. The Northwest Power Planning Council is investigating whether there is value to the region in maintaining some level of DSI load, which can act as a curtailable reserve when the region is faced with a power supply crisis. There is also some economic benefit to Washington and the region in providing power to the aluminum industry if it has only a modest impact on the rates of all other customers. It is not clear what level of allocation is appropriate but the proposals by the utility customers, Alcoa, Golden Northwest Aluminum and the Steelworkers provide some basis for discussion.

4. **Control over BPA expenditures:** We do have some concern over the new language in section E1 that states, "it is imperative that these customers obtain meaningful and enforceable participation in the process for setting BPA's expenditures." While we agree that all parties should have meaningful participation in the BPA expenditure setting process we have three specific problems with this assertion. First, since the driver of BPA's recent large rate increases has been its purchase of power in the market-- and the new allocation scheme will end that problem for the utilities--we don't understand what problem needs to be solved. Second, there are legal issues to be faced: can the administrator grant this kind of oversight without surrendering his statutory authority? Third, there is the political question of why the utility customers alone, among all of the stakeholders in the region, should have such a privileged position.

As we noted in our paragraph on fish and wildlife, the relative authority of power customers of BPA, the federal agencies themselves, and all other interests in the region still needs to be worked out in detail. Agreement on the allocation of power from BPA does not necessarily imply any agreement on any other aspect of the power system whether be it the quantity of power available, the price at which it is sold, or the manner in which the system is governed and managed. While we think the allocation scheme proposed by the customers is generally sound, we are uneasy about some of the implications that can be drawn about quantity, price and management.

Thank you for the opportunity to provide our perspective on one of the most important issues confronting the electricity system in the northwest. We look forward to continuing the conversation over the coming months.

Sincerely,

Tony Usibelli
Energy Policy Division Director